Converging forces set to transform retail banking

Banks need to build new capabilities and adapt quickly to emerging opportunities, threats
By Darrel Orsmond, Financial Services Industry Head at SAP Africa

A range of models and millions of dollars in consulting hours are expended to understand the potential impact of a range of market forces on the retail banking sector. While the potential outcomes are fraught with unpredictability, it is worthwhile to pause and consider some of the forces that could have an impact to avoid being caught off-guard.

Some of the major forces potentially playing out in the retail banking sector include:

· **The rise of the individual** and the independent economic, social, and political power that this has brought to individuals;

· **The individual as the centre of the universe**, marked by a *"don't do anything to diminish me or my rights without my consent"* worldview;

· **The rise of the collective**, which paradoxically puts groups – including anything from the state to social movements, supporter clubs, and alumni organisations – as aggregated participants in decision-making;

· **The ease of access to massive computing power** for anyone who wants it;

· **The use of collateralised logic** to make decisions and deliver insights, driven by big data learning and insights with predictive capabilities;

· **Massively synthesised delivery** to users on devices anywhere, anytime;

· **Rapidly emerging and disintegrating business models** for the creation of value, often accompanied by equal destruction of value, such as those of Google, Airbnb, and Facebook; and

· **The commoditisation of historical value-added processes** such as risk assessment and payments, and thus of human logic and variability.

Two main forces of change in retail banking

In financial services, the two key forces that are set to fundamentally influence the sector are the rise of the individual (and by extension of groups), and the data-originated insights and collective individual rights inferred and accorded by a business model.

These two forces are set to change the retail banking industry by removing banks' ownership of the payment - or financial services 'offer' - to customers. Customers no longer come to the bank to make their financial arrangements: they do them wherever they are through a number of channels, conducting all manner of purchasing activities whether it's travel, medicine clothes, capital goods, music, transport, and more. Here, customers are simply relying on the process of delivery to give them their goods, without caring whether a bank is involved at all.

Banks therefore need to collaborate with providers in new business models and networks using all the collective data at their disposal to originate pre-prepared offers in real time in response to customer generated activities, or because of external events. Considering the dramatic increase in the customer's rights and decision-making power, banks can expect customers to begin 'owning' their digital identities and asserting their rights and terms over contracts, usage, payments and more. Customers will assert their digital identity in explicit ways – such as putting customer-defined limits on content purchases – as well as modelled ways, for example automatically approving certain purchases because previously modelled or inferred behaviour shows customers agree with that type of purchase timing and value.

A shift in power

This shifts power from corporates to individuals, equalising the relationship between the bank and the customer, and forcing banks to apply insights and timeliness in a range of personalised offers to seduce the customer. Here, the brand name takes a back seat to the importance, timing, quality and relevance of the offer. Customers will also negotiate and leverage their group power – for example by associating with certain support clubs, alumni organisations or social causes, customers will expect banks and financial services providers to know this and adapt offers accordingly.

These are no doubt uncertain times and banks face a very different world to what the sector has been used to. It is important therefore to hedge bets by building new capabilities so that banks are well-placed to outmanoeuvre their competitors.

Banks' first priority should be a systematic analysis of gaps in current development spend, followed by the development of a roadmap with specific business cases and deliverables.